



Updated General Fund Fiscal Outlook for FY 16 – FY 18

NOVEMBER 17, 2015

Review of Current Year (FY 16)

- Based on an improving economy
- Balanced as a result of discipline and prudent decisions
- Contained no service reductions
- Funded police and fire academies; working to conduct two police academies
- Continued to work on outstanding financial issues and cost savings
- Projected structural surplus of \$675,000 for FY 16; appears to be on target
- Being carefully monitored due to key revenue and expense items that are impacting the outlook for FY 16 – FY 18

Revenue Items Impacting FY 16 – FY 18

- Positive Revenue Impacts

- > Sales Tax –economic growth; CRC Services, Office Depot, Hooman, Worthington
- > Transient Occupancy Tax – economic growth
- > Property Tax – higher residual property tax from RDA dissolution
- > First Responder fee – new fee implemented
- > Misc. Revenue – Electric UUT, lease revenue from The Pike

- Negative Revenue Impacts

- > Property Tax – low oil prices from reduced value of oil related property
- > Uplands Oil revenue– reduced price per barrel

Expense Items Impacting FY 16 – FY 18

- Positive Expense Impacts

- > Open Space Bonds Debt Service – to be covered by RDA City loan repayment per State
- > CalPERS Stabilization Fund – proposed to be paid by FY 15 year-end surplus

- Negative Expense Impacts

- > RMD Termination – to be covered by First Responder Fee or FY 15 year-end surplus
- > County Park Bond Funded Maintenance – now a General Fund expense

Assumptions and Uncertainties

- Assumes CalPERS costs are locked through FY 18; although low investment returns will draw down CalPERS stabilization fund
- Assumes the economy will continue to be good, but it is uncertain and difficult to predict
- Assumes oil at \$45 a barrel for FY 16 and \$50 a barrel for FY 17 and FY 18, but this is highly uncertain and difficult to predict
- Does not assume any raises or take-aways in current or upcoming labor negotiations
- Projection will change based on FY 16 status as the year continues and with any new information

Revised Fiscal Outlook for FY 16 – FY 18

| (In Millions of \$) | FY 16 | FY 17 | FY 18 | Cumulative |
|--|-------|-------|-------|------------|
| Prior Projection - Surplus/(Shortfall) | 0.7 | (7.5) | (7.8) | (15.3) |
| Current Projection - Surplus/(Shortfall) | 0.7 | (5.1) | (5.2) | (10.3) |

- Since the FY 16 temporary surplus was not structurally spent, it reduces FY 17 deficit from \$5.8 to \$5.1 million, which is not at the level of cuts needed during Great Recession
- While Fiscal Outlook for FY 16 – FY 18 is better than the original projection, we have already cut \$134 million and almost 700 positions since FY 07
- Shortfalls likely to continue through FY 20 due to oil prices and pension cost increases
- This outlook will be updated later in FY 16 and could change materially

Budget Approach

- FY 16 – Be Cautious

- > Exploring General Fund department budget savings targets to begin in January in order to:
 - Ensure FY 16 remains in balance
 - Generate funds for one-time purposes including Police Academy costs
 - Prepare for FY 17 by initiating savings now to help to balance fiscal years 17 and beyond

- FY 17 Approach

- > Allow no service enhancements without offsetting reductions
- > Continue to develop efficiencies and cost reductions
- > Focus one-time expenditures on reducing costs and meeting critical needs
- > Focus on economic development to grow revenue base and identify potential new revenues
- > Develop approaches to meeting any reduction targets needed
- > Work with employees to secure fair agreements that recognize the value of employees while also addressing our fiscal realities

Summary and Next Steps

- Long Beach is projected to do better than earlier anticipated, but must continue to take steps to address a new economic reality and reduce expenditure growth to match the limited revenue growth
- The preliminary budget projected shortfall of \$5.1 million in FY 17 equates to 1.3% of the departmental budgets and this is manageable due to the Mayor's and City Council's discipline and fiscal restraint
- We need to stay focused on our core services given our limited resource capacity
- City Staff will continue to evaluate financial projections and will update City Council in February with the FY 15 year-end status and will return in March with updated estimates for the FY 17 – FY 19 Outlook